

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Periodic Reporting  
(Proposal Six)

Docket No. RM2018-9

PUBLIC REPRESENTATIVE COMMENTS

(August 14, 2018)

I. INTRODUCTION

The Postal Service's Petition, filed pursuant to 39 C.F.R. § 3050.11, requests a change in analytical principles relating to changing the costing methodology for the treatment of International Indemnity expenses. This proposal, designated Proposal Six, would change the costing methodology to include Inbound International Indemnities with Outbound International Insurance Indemnities in the distribution of costs rather than to the PMI product. (Petition at 1)

The Postal Service states that this proposal responds to the Commission's directive concerning Outbound International Insurance at page 87 of its Annual Compliance Determination. Therein, the Commission found that International Ancillary Services was not in compliance with 39 U.S. C. § 3633(a)(2) in FY 2017 and directed the Postal Service to report within 90 days of issuance of the ACD on its evaluation of Outbound International Insurance cost reporting and whether a change in analytical principles is warranted. *Id.* (Citing FY2017 ACD, Chapter 4 at 87.) Proposal Six would expand the distribution of the attributable costs for International Indemnity Payments to include International Inbound Indemnity Payments. *Id.* at 2.

In FY 2017, all expenses associated with Outbound International Indemnity Payments and Inbound International Indemnity Payments were distributed solely to

Outbound International products and services. The Postal Service asserts that this was incorrect and certain Inbound International products and services should have been included in the distribution of costs. To correct this error, the Postal Service would make two refinements to this process. The first refinement is to separate Outbound International Insurance indemnities from Inbound Insurance indemnities. The second refinement is to develop separate decision rules for treating the costs relating to Outbound International indemnities and Inbound International indemnities.

The Postal Service explains that Priority Mail Express International (merchandise) service, and Priority Mail International (merchandise) service offer \$200 of included insurance. Global Express Guaranteed service (documents and non-documents), and Priority Mail Express International (documents) service offer \$100 of included insurance. Outbound International customers also have the option to buy additional insurance for a fee, including Global Express Guaranteed (GXG) (documents and non-documents) service, Priority Mail Express International (PMEI) (merchandise service, and Priority Mail (PMI) service. The Postal Service asserts that it has studied the ability to separate the product cost from the insurance cost for GXG, PMEI and PMI services. It has also determined that the details data are reliable and accurate. The Postal Service provided additional information about this in a CHIR response.<sup>1</sup> The decision rules for separating costs are: 1) when additional insurance is not purchased, the indemnity cost will be assigned to the base parent product, and 2) when additional insurance is purchased, this indemnity cost will be assigned to the Outbound International Insurance product.

In the case of Inbound International indemnities, in the Postal Service's estimation, the documentation and data detail available for inbound products for which indemnity is available are not as consistent as that available for outbound products. *Id.* at 4. However, the Postal Service states that by using Universal Union (UPU) barcoding guidelines for allowable service indicators, it is able to assign costs associated with the Inbound International Registered Mail service. Inbound

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<sup>1</sup> See USPS Response to Chairman's Information Request No. 1, question 1. (July 20, 2018).

International Registered Mail service indemnities in FY 2017 accounted for approximately 56 percent of the total reported Inbound International indemnities. The residual Inbound International indemnities are paid to the origin country postal operator. Service indicators for the remaining pieces provide the origin country, but are not specific enough for reporting purposes. In addition, these pieces also lack adequate IOCS tallies. As a result, external data from the Product Tracking System (PTS) were collected to supplement the existing information provided by the origin administration. The Inbound non-Registered indemnity expenses can be identified first by country of origin through the origin administration barcode, and then by transportation mode identified by PTS. Using these two data systems together, the Postal Service divided most of the remaining Inbound International Indemnities among the corresponding proportion of products. Any indemnities that cannot be assigned using these data are assigned to products in the same proportion as the indemnities for which actual data are available.

The net impact of this proposal, as shown in the Postal Service's Excel Spreadsheets filed under seal with its petition, shifts costs from Outbound products to Inbound products. As a result, the contribution improves for Outbound products and declines for Inbound products. However, the Postal Service notes, products that previously had positive contribution in the FY 2017 ICRA (International Cost and Revenue Analysis) would continue to have positive contribution under this proposal, and products that previously had negative contribution in the FY 2017 ICRA would likewise continue to have negative contribution upon implementation of the proposal. Petition at 3.

## II. COMMENTS

The Public Representative has reviewed the Postal Service's Petition and the responses to the Chairman's Information Request No.1. Based on this review, the Public Representative supports Commission approval of Proposal Six. While this

proposed change in methodology would not have resulted in products that previously had negative contributions becoming positive, continuation of the existing methodology, which is clearly deficient, would even more likely result in continuing negative contribution for Inbound products. In addition, the application of the Proposal Six methodology to FY 2018 data could, perhaps, result in Inbound products covering their attributable costs. The Commission should revisit this situation in its FY 2018 Annual Compliance Determination. In addition, correct costing is necessary for the Postal Service to make decisions about potential future rate changes for the affected products.

### III. CONCLUSION

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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